

STAFF REPORT

DATE: October 6, 2026

TO: City Council

FROM: Ryan Chapman, Public Works Director
Adrienne Heinig, Assistant Public Works Director
Sam Blacklock, Climate Action and Resilience Program Manager

SUBJECT: Introduction of Ordinance Adding Article 2.30 to Chapter 2 of the City's Municipal Code Related to Authorizing the Framework for Establishing a Future Municipal Electric Utility

Recommendation

Introduce an Ordinance (Attachment 1) adding Article 2.30 to Chapter 2 of the Davis Municipal Code, that authorizes establishing a future municipal electric utility, and finding the ordinance exempt from environmental review pursuant to California Environmental Quality Act (CEQA) Section 15061(b)(3).

Fiscal Impact

No capital commitments are associated with this proposed City Council action. Costs associated with this item include staff time which is borne by City Department budgets.

Council Goal(s)

This activity does not address any specific Council goal, but does generally support the City Council's Goal of Climate Resilience Infrastructure.

Commission Input

This item approves a resolution implementing previous Council direction and is a standard procedure where the City Council provides authority to approve. Should the establishment of the framework progress in the future, Council may direct staff to work with the applicable City commissions on implementation.

Background and Analysis

In May of 2025, City Council received a presentation from Valley Clean Energy (VCE) regarding municipal energy with a specific focus on greenfield municipalization. Greenfield municipalization involves a local governmental entity utilizing statutory authority to establish a new publicly owned and operated "integrated" electric utility to serve retail electric load in a previously undeveloped area. This approach does not involve annexing any existing electric utility infrastructure. City Council directed staff to explore potential ordinance updates to allow greenfield municipalization, which will begin at this meeting with the framework.

This Ordinance establishes a new “inactive” local electric utility, called Davis Power, with activation subject to subsequent events, evaluations and decisions by City Council. It does not create an obligation to implement an operational municipal utility. Additionally, there is flexibility to amend the ordinance following future City Council consideration and direction to implement the new enterprise. It should be noted that significant effort and resources would be required in the future if City Council were to decide to pursue the implementation and operationalization of a municipal electric utility.

Similar action has been taken by the City of San Jose in 2023 when the City passed an ordinance establishing San Jose Power as a municipal utility for electric service. While the City created the legal framework for implementing a utility, San Jose Power is currently inactive with no formal plans to fully activate in the near term. The Cities of Gonzales and Hercules have also attempted this kind of action in recent years but have not ultimately been successful in fully implementing and maintaining their own electric utility.

Potential benefits of establishing a municipal utility may include lower service costs, long-term local control, the ability to complement other local services, tax-exempt 100% debt financing of capital facilities, and improved service reliability. Additionally, this may give the City the ability to adopt the latest technologies to help achieve lower greenhouse gas emissions and improve resiliency.

Establishing a new local utility requires examining a complex array of issues and further analysis would be needed to quantify the benefits, risks, and possible challenges.

Significant issues to analyze and address include:

- Incumbent Investor-Owned Utility (IOU) performance;
- Determining the scale at which the utility operation is economically viable;
- Local government business/utility capabilities;
- Estimates of new utility loads;
- Financing structure;
- Large capital outlays for new infrastructure;
- Detailed engineering plan;
- Recruiting and retaining specialized staffing;
- Navigating a detailed regulatory process;
- Potential liability;
- Comparative retail rates;
- General economic conditions;
- Management and oversight mechanisms; and
- Community support.

It is expected that the process to further pursue establishment of a municipal electric utility would take several years. At a minimum, future City Council considerations and direction would likely include the following items:

1. Retaining consultant support;
2. Initial feasibility study;

3. Review of existing IOU franchise arrangement;
4. Comprehensive study including detailed legal, economic, engineering, financial and operational feasibility;
5. Transmission interconnection agreements;
6. Rules and regulations for operation of Davis Power;
7. Power procurement and risk management processes;
8. Staffing plan and the creation of new union classifications to support operations;
9. Rates and tariffs based on a cost-of-service study to determine revenue requirements and ensure recovery of those revenue requirements from customers; and
10. Final business plan.

Attachments

1. Ordinance adding Article 2.30 to Chapter 2 of the City of Davis Municipal Code

ORDINANCE NO. XXXX

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF DAVIS ADDING A NEW ARTICLE 2.30 (AUTHORIZATION TO ESTABLISH A MUNICIPAL ELECTRIC UTILITY) TO CHAPTER 2 (ADMINISTRATION) OF THE DAVIS MUNICIPAL CODE TO ESTABLISH A MUNICIPAL UTILITY FOR ELECTRIC SERVICE

WHEREAS, Article XI, section 9 of the California Constitution provides that a municipal corporation may establish, purchase, and operate public works to furnish its inhabitants with electricity; and

WHEREAS, Section 39732 of the California Government Code provides that a city's legislative body may acquire, own, construct, maintain, and operate light, power, and heat works among others; and

WHEREAS, the City desires to allow for the future establishment of a municipal electric utility named Davis Power, which would be administered under the City of Davis Public Works Department.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF DAVIS DOES HEREBY ORDAIN AS FOLLOWS:

SECTION 1. The recitals above are true and correct and are hereby incorporated into this Ordinance.

SECTION 2. Article 2.30 (Authorization to Establish a Municipal Electric Utility) is hereby added to Chapter 2 (Administration) of the Davis Municipal Code to read as follows:

ARTICLE 2.30 Authorization to Establish a Municipal Electric Utility

2.30.010 Purpose.

2.30.020 Definitions.

2.30.030 Rules and regulations.

2.30.040 Authority.

2.30.050 Service areas.

2.30.060 Ownership of the electric utility system.

2.30.070 Risk management.

2.30.080 Rates and charges.

2.30.090 Regulatory compliance.

2.30.100 Reports to city council.

2.30.110 Davis Power operating fund.

2.30.010 Purpose.

The purpose of this article is to provide resilient, reliable, efficient, and cost-effective electric service to portions of the city by authorizing and establishing the framework to own and operate an electric utility to provide electric power generation, transmission, and

distribution services to its electric utility customers through the public works department, doing business as Davis Power. Neither the adoption of this article nor the designation of any municipal electric utility service area shall, by itself, form Davis Power, obligate the city to construct or acquire any facility, or obligate the city to provide electric service.

2.30.020 Definitions.

The definitions set forth in this article will govern the application and interpretation of this article.

Public Works Department means the City of Davis Public Works Department.

Director means the director of the Public Works Department.

Electric utility system means the network of components owned and operated by Davis Power to provide electric service to customers, including but not limited to generation, transmission, and distribution infrastructure.

Power products means energy, renewable energy, clean power attributes, capacity, resource adequacy, energy efficiency, demand response, energy load shaping, energy storage, transmission, import capability, fuel related to energy purchases, ancillary services in support of interconnected operations (as defined in the California Independent System Operator Corporation, Fifth Replacement Electronic Tariff or its successor tariff), and similar energy market products required to serve load and comply with regulatory obligations.

Davis Power means the municipal electric utility created by this article.

Utility risk management policy means the policy approved by a resolution of the city council under Section 2.30.070 of this code.

2.30.030 Rules and regulations.

The city council may by resolution approve rules and regulations governing the electric utility; the electric utility service; and the tariffs, rates, fees, and charges.

2.30.040 Authority.

Pursuant to the rules and regulations approved by resolution of the city council, the city's electric utility may:

- (a) Acquire and/or generate electric power;
- (b) Arrange for the transmission and distribution of such power;
- (c) Construct, operate, and maintain equipment and facilities necessary to provide electric services;
- (d) Recover all costs associated with its investment in electric generation, transmission and distribution facilities, operation and maintenance costs and all other expenses related to the operation of the electric utility; and
- (e) Bill for and collect electric fees, rates and charges related to the electric services provided to its electric utility customers as it deems appropriate in the ordinary course of business for the benefit of its citizens and electric utility customers.

2.30.050 Service areas.

The service areas of the electric utility consist of areas situated within the boundaries of the city and will be established by resolution of the city council.

2.30.060 Ownership of the electric utility system.

The electric utility system installed or operated by Davis Power will be the sole property of the city.

2.30.070 Risk management.

- (a) The director will submit a utility risk management policy to the city council for approval.
- (b) The risk management policy will be reviewed annually, or as directed by the city council, and any proposed changes will be approved by resolution of the city council.
- (c) The risk management policy will provide for appropriate reserves to mitigate operational risks.
- (d) All agreements for power products will contain appropriate risk management provisions consistent with the risk management policy.

2.30.080 Rates and charges.

- (a) Purpose of rates and charges. The purpose of the provisions of this article is to establish a process for setting rates for Davis Power electric service that will generate sufficient revenue to meet the anticipated expenditures and to generate additional revenues to maintain adequate reserves as may be established by resolution of the city council. Any rate increase for the express purpose of increasing transfers to the general fund is prohibited.
- (b) Establishment of electricity rates and charges.
 - (1) Rates and charges for Davis Power electric service will be established from time to time by resolution of the city council.
 - (2) Rates and charges for Davis Power electric service may vary by electric service area.
 - (3) Written notice of any proposed change in rates and charges for Davis Power electric service will be provided as follows:
 - (A) Notice will be published in a newspaper of general circulation at least fifteen (15) days in advance of city council consideration of such increase.
 - (B) Notice will be sent directly to the customer with the customer's regular electric service bill if a bill is due to be sent to the customer between the time an increase is proposed and the increase is scheduled to be considered by the city council.
- (c) Payment for service.
 - (1) Any bill for Davis Power electric service not paid by the due date specified in the bill will be deemed delinquent.
 - (2) If a bill for Davis Power electric service becomes delinquent, a late charge in an amount set forth in the schedule of fees established by resolution of the city council will be added to the bill. The late charge will be in addition to any administrative charges imposed for reconnection of service in the event of service shut-off due to non-payment.

2.30.090 Regulatory compliance.

- (a) The director or designee will submit, file, verify and sign, as applicable, all documents including reports, plans and data required to comply with Davis Power's regulatory requirements.
- (b) At least once annually, the director will provide reports to the city council listing the documents submitted to the various regulatory agencies since the last annual report was issued. The report required in this section may be combined with the reporting required in Section 2.30.100.

2.30.100 Reports to city council.

The director will submit informational reports to the city council at least once annually summarizing the number of agreements and the total cost of those agreements during the previous year. The annual report required in this section may be combined with the annual reporting required under Section 2.30.090.

2.30.110 Davis Power operating fund.

- (a) There is hereby created and established the "Davis Power Operating Fund."
- (b) All monies derived from the operation of Davis Power, including but not limited to revenues from sale and delivery of electricity, payments from other entities, and any financing proceeds associated with Davis Power will be deposited in the Davis Power Operating Fund.
- (c) Monies in the Davis Power Operating Fund will only be expended for costs of operating Davis Power, including but not limited to, energy procurement; on-going capital improvements and maintenance of the electric utility system in the utility service area; payment of required debt service; staffing and administration costs; purchase of supplies, materials, and equipment attributable to or necessary for the operation, improvement, and maintenance of the electric utility system in the utility service area; and transfers to the general fund to compensate the city as permitted by applicable law.

SECTION 3. The City Council finds that this Ordinance is not subject to the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines Section 15061(b)(3) because it is an organizational and enabling measure that does not authorize or commit the city to any specific physical activity that may cause a direct or reasonably foreseeable indirect physical change in the environment; any such activity, including formation of the municipal electric utility and construction or acquisition of facilities, will be subject to CEQA review before approval.

SECTION 4. If any section, subsection, sentence, clause, phrase, or portion of this Ordinance is for any reason held to be invalid or unconstitutional by the final decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The Council hereby declares that it would have adopted this Ordinance and each section, subsection, sentence, clause, phrase, or portion thereof, irrespective of the fact that any one or more portions be declared invalid or unconstitutional.

SECTION 5. The City Clerk shall certify to the adoption of this Ordinance, and the City Clerk shall cause this Ordinance or a summary thereof to be published as required by law.

SECTION 6. This Ordinance shall take effect and be in full force and effect thirty (30) days from and after the date of its final passage and adoption.

INTRODUCED on the 6th day of October, 2026, and PASSED AND ADOPTED by the City Council of the City of Davis on this ____ day of _____, 2026, by the following vote:

AYES:

NOES:

Donna Neville
Mayor

ATTEST:

Zoe S. Mirabile, CMC
City Clerk